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**Montana Department of  
Transportation**

This report documents the results of our financial-compliance audit of the Montana Department of Transportation (department) for the two fiscal years ended June 30, 2005. We issued an unqualified opinion on the financial schedules presented in this report. This means the reader may rely on the presented financial information and the supporting information on the state's accounting system.

This report contains twelve recommendations directed to the department. The first five recommendations concern compliance with federal regulations and controls over federal compliance regarding materials testing rates, indirect cost rate calculations, Davis-Bacon Act and cash management requirements, and the Highway Traffic Safety Program. There are six accounting control or misstatement issues related to collections, unconstitutional payments, unrecorded revenues and expenditures, infrastructure assets, cash change funds, and travel advances. The last recommendation concerns state laws that may need to be amended or clarified. Of the nine recommendations from the prior audit, we found the department fully implemented five recommendations, and partially implemented four recommendations.

The listing below serves as a means of summarizing the recommendations contained in the report, the department's response thereto, and a reference to the supporting comments.

Recommendation #1

We recommend the department implement control procedures over materials testing project charges to ensure compliance with federal cost allowability requirements. .... 6

Department Response: Concur. See page B-4.

Recommendation #2

We recommend the department calculate indirect cost rates in accordance with federal regulations and state law. .... 8

Department Response: Concur. See page B-4.

## Report Summary

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<u>Recommendation #3</u>	We recommend the department clarify its policies on approving subcontracts to ensure compliance with federal Davis-Bacon Act provisions.....	9
	Department Response: Concur. See page B-4.	
<u>Recommendation #4</u>	We recommend the department establish management controls to ensure compliance with applicable federal cash management requirements.....	11
	Department Response: Concur. See page B-4.	
<u>Recommendation #5</u>	We recommend the department:  A. Evaluate, implement, and monitor compliance with control procedures to ensure compliance with federal requirements and Highway Traffic Safety Program policy.  B. Document support for match claimed.  C. Obtain repayment for unallowable subrecipient charges.....	14
	Department Response: Concur. See page B-5.	
<u>Recommendation #6</u>	We recommend the department improve procedures to ensure collections are adequately safeguarded and properly recorded on its accounting records.....	15
	Department Response: Concur. See page B-5.	
<u>Recommendation #7</u>	We recommend the department disburse funds only upon an appropriation made by law.....	16
	Department Response: Concur. See page B-6.	

<u>Recommendation #8</u>	We recommend the department record revenues and expenditures in accordance with state law and accounting policy.....	18
	Department Response: Concur. See page B-6.	
<u>Recommendation #9</u>	We recommend the department establish controls to ensure the accuracy of the transactions recorded for infrastructure assets. ....	20
	Department Response: Concur. See page B-7.	
<u>Recommendation #10</u>	We recommend the department establish and implement consistent procedures to ensure appropriate accounting for the issuance, custody, and return of cash change funds. ....	21
	Department Response: Concur. See page B-7.	
<u>Recommendation #11</u>	We recommend the department regularly reconcile travel advances recorded on its Payroll/Personnel system to the state's primary accounting system. ....	22
	Department Response: Concur. See page B-7.	
<u>Recommendation #12</u>	We recommend the department:  A. Comply with state laws concerning driver training programs, drivers' license reinstatement fees, distribution of aircraft registration fees, and liability insurance for commercial air operators.  B. Seek legislation, if necessary, to amend or clarify state laws concerning driver training programs, drivers' license reinstatement fees, distribution of aircraft registration fees, and liability insurance for commercial air operators. ....	24
	Department Response: Concur. See page B-7.	